

Worksession

Agenda Item #	5
Meeting Date	November 27, 2006
Prepared By	Wayne Hobbs & Karen Hampton
Approved By	Barbara B. Matthews City Manager

Discussion Item	Follow Up Discussion of Proposed Resolutions Amending the City's 457 Deferred Compensation Plan to Permit Loans and Amending the City's 457 Deferred Compensation Plan Loan Guidelines to Permit On-Line Loans and ACH Debit
Background	<p>On October 9, 2006, the City Council discussed the possible amendment of the City's 457 Deferred Compensation Plan to allow loans by City employees. During the worksession, several questions and concerns about the proposed amendment were raised. The November 27, 2006 worksession will provide an opportunity for staff to provide additional information relative to these matters and for the Council to provide direction as to how the City should proceed.</p> <p>The following are the key provisions of the City's 457 Deferred Compensation Plan as currently structured:</p> <ul style="list-style-type: none"> • The 457 plan is a supplemental retirement plan that is optional for employees. • The money in this plan is managed by the ICMA Retirement Corporation. • All of the funds in the program belong to the employee. • A person can only access his/her funds after retirement or as an emergency withdrawal. Emergency withdrawals are highly restricted; they are subject to IRS regulations and must be approved by the City. <p>The provisions of the proposed loan program are described below:</p> <ul style="list-style-type: none"> • Loans would be permitted for any purpose. • An employees could take one loan per calendar year and have only one outstanding loan at a time. • Loans would be for a minimum amount of \$1,000. • Loans would be restricted to the lesser of \$50,000 or one-half of the participant's account balance. • Loans would be repaid within five years, except for loans for purchase of a principal residence which must be repaid within 20 years. • Rate of interest on loans of five years or less is prime plus 0.5%. For principal residence loans, interest is based on the FHA/VA rate.

	<ul style="list-style-type: none"> • Loan applications would be done on line • Repayment of loans would be by ACH debit. If the City authorizes loans to be made online for any purpose, the City is removed from any direct administrative involvement in the loan process, provided the City approves the recommended changes in the plan to restrict repayments to ACH debit. • A participant would be required to take a loan before taking an emergency withdrawal.
Policy	The City has authorized a Deferred Compensation 457 Plan as a supplemental retirement plan; it is optional for all employees of the City.
Fiscal Impact	None, provided that loans are allowed for any reason, application for loans is done on line, and repayment is restricted to ACH debit. Other scenarios would require an increase in staff workload.
Attachments	None
Recommendation	Staff recommends that, at a future meeting, the Council adopt resolutions amending the City's 457 Deferred Compensation Plan to permit loans and to permit online loans and ACH debit.
Special Consideration	